

Committee Comment

Introduction

- 5.1 The evidence presented in Chapter 4 provides the context for the comments and recommendation in this chapter.

Major Projects Report Overall

- 5.2 The Committee again notes with satisfaction that the MPR as a document and as a process has developed into an excellent tool to assess the status of Defence major acquisition projects. The Committee notes that in 2014–15, the results of the ANAO’s priority assurance review of the 25 PDSSs, was that nothing has come to their attention that causes them to believe that the information and data in the PDSSs, within the scope of our review, has not been prepared, in all material respects, in accordance with the Guidelines.¹
- 5.3 The Committee commends both the ANAO and the Department of Defence on their continued work on this document.

Management issues

- 5.4 The Committee notes the ongoing management and administration issues identified by ANAO. The departmental reform that is occurring as part of the *First Principles Review* (FPR) provides an opportunity to resolve some of these issues. Ongoing commitment, resourcing and leadership will be required to fully exploit the opportunities that the FPR process offers. The Committee looks forward to hearing how the necessary reforms advocated by the FPR process are being implemented.

1 *Major Projects Report 2014-15*, p. 12.

Recommendation 1

Noting the importance of clear roles, responsibilities, accountabilities and lifecycle management processes, the Committee recommends that the Department of Defence publish the outcomes from Recommendation 2:11² of the *First Principles Review* as soon as practicable and that a summary of this information be included in the next Major Projects Report.

Schedule slippage

- 5.5 The Committee also notes that project schedule slippage remains a concern despite the initial impression of improvement due to the exit of a number of projects which had not reached Final Operational Capability.³ This year's report shows that more recent projects (post-2005) are incurring less slippage, which aligns with an increased use of MOTs acquisitions. The Committee agrees with ANAO, that it remains critical that Defence correctly assesses initial purchase type – that is, between COTS, MOTS, A-MOTS and Developmental – so that projects and their anticipated risks are managed at the appropriate level.⁴
- 5.6 The Committee urges the ANAO and Defence to consider how to present schedule slippage in projects where FOC has been amended due to Government revisiting second pass approval to alter the project.
- 5.7 The Committee anticipates that project schedule slippage will require ongoing examination.

Expected capability estimates

- 5.8 The ANAO's assessment that the delivery of capability estimates are in some cases overly optimistic has been noted by the Committee with concern. At the macro-level this provides an overly-positive picture of

2 Recommendation 2:11 'First Principles Review: Creating One Defence', <http://www.defence.gov.au/Publications/Reviews/Firstprinciples/Docs/FirstPrinciplesReviewB.pdf> accessed 9 March 2016. Table of Recommendations on p. 4.

"...significant investment to develop an operational framework which comprehensively explains how the organisation operates and the roles and responsibilities within it; detailing the life cycle management processes which provide project and engineering discipline to manage complex materiel procurement from initiation to disposal; and reviewing architecture to reinforce accountability at all levels and bringing together information upon which good management decisions can be made."

3 *Major Projects Report 2014-15*, p. 13, paragraph 30.

4 See *Major Projects Report 2014-15*, paragraph 36, p. 15.

project status and hence should be reviewed by Defence. The Committee supports continued ANAO assessments in this area in future MPRs.

Recommendation 2

To ensure consistency with project level risk information and to improve reliability, the Committee recommends that the Department of Defence review the procedure for development of expected capability estimates for future Major Projects Reports.

Risk management and contingency

- 5.9 This year's ANAO review indicates that the majority of project offices maintained risks and issues logs appropriately, but that Defence inconsistently recorded and reported major risks and issues.
- 5.10 In addition to the ANAO's assessment that key elements of Defence's risk assessment framework are unfinished, this raises concerns about how projects are being managed. The Committee encourages Defence leadership to act on ANAO's suggestion that increased scrutiny and accountability of project performance may be required to identify shortcomings and to support project offices manage their risks.
- 5.11 Similarly, the Committee encourages Defence to ensure that there is a uniform approach to applying contingency against risk.

Project Maturity Scores

- 5.12 Project Maturity Scores are required policy for all major capital acquisition projects within Defence but are not consistently applied.⁵ The Committee supports the ongoing use of a composite performance indicator for all Major Projects, as it provides an overall assessment of the projects status. The Committee sees the shift from the Project Maturity Scores to the Materiel Implementation Risk Assessment (MIRA), as problematic as these two approaches do not seem to serve the same purpose and are hence not interchangeable. Issues pertaining to the usefulness of Project Maturity Scores have been ongoing for some time having been reviewed in both JCPAA reports on the previous two MPRs. The Committee notes that while the guidance underpinning maturity scores was due for review in September 2012, this review is still yet to be finalized and Defence advised the ANAO that the release of the *First Principles Review* has meant that the guidance would require further consideration.

5 *Major Projects Report 2014-15*, p. 32.

Recommendation 3

The Committee recommends that the Department of Defence work with the Australian National Audit Office to review and revise their policy regarding Project Maturity Scores in time for the new approach to be implemented in the next Major Projects Report.

Air Warfare Destroyer contract arrangements

- 5.13 The requirement for the Government to provide a further \$1.2 billion for the three Air Warfare Destroyer (AWD) vessels is indicative of the level of problems encountered with this project.
- 5.14 The project is large and complex. The management approach was also complex – with ‘pain-gain arrangement’ and an alliance that included Defence (then DMO), the Australian Submarine Corporation and Raytheon, but originally left out the Spanish designer Navantia.
- 5.15 Contracting issues raised through both the ANAO’s report⁶ and media reporting⁷ were of concern to the Committee as they indicated that there were flaws in the contract arrangements that resulted in the Australian tax-payer carrying more of the burden of the problems encountered than should have been the case.
- 5.16 Advance payments of the ‘gain’ were questionable in themselves, and when the project began to falter it would appear the ‘pain’ was not inflicted on the other partners in any meaningful way. The contracting arrangements pursued appear to have been a flawed model.

6 ANAO, Audit Report No. 22 (2013-14), *Air Warfare Destroyer Program*, <<https://www.anao.gov.au/work/performance-audit/air-warfare-destroyer-program>>, accessed 8 April 2016.

7 Thomson, M., “What on earth is going on with the Air Warfare Destroyer program?”, 19 June 2015, <<http://www.aspistrategist.org.au/what-on-earth-is-going-on-with-the-air-warfare-destroyer-program/>> accessed 7 March 2016.

Recommendation 4

The Committee recommends that Defence conduct a review of the Air Warfare Destroyer (AWD) contractual arrangements, examining the distribution of liabilities for project problems. The report should examine:

- how much each alliance partner lost or was liable for when the project ran over budget; and
- what lessons have been learned from the AWD experience in terms of future contractual arrangements and how these lessons have been incorporated into the standard practices of Defence to help mitigate such issues arising in the future.

A report on that review should be provided to the Committee within 6 months of the tabling of this Committee report.

The Hon Ian Macfarlane MP
Chair
Date: 3 May 2016

